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Is it too late to buy small-cap stocks?

Miami: where low taxes bring high growth

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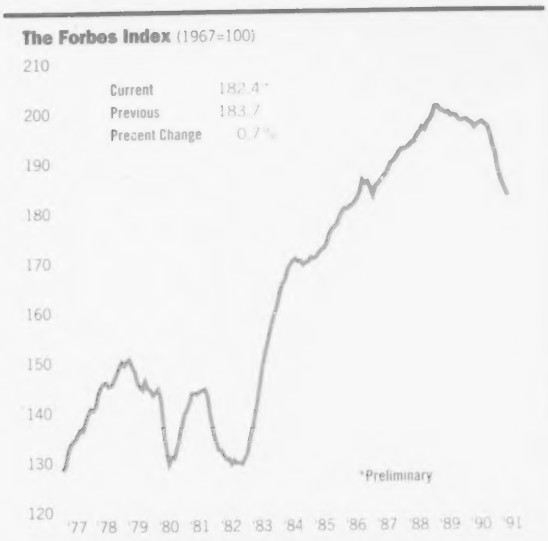
THE FORBES INDEX

BY TIMOTHY DODMAN



After declining for six straight months, industrial production rose 0.1% in April. The emerging recovery in home building continued in April, as housing starts registered a 34% gain over March. This was the biggest monthly increase in building activity in more than two years. There was also encouraging news on the labor front as new claims for unemployment fell 7% in April. Although retail sales fell 0.1% from March to April, revised data show that retail sales had monthly increases of 2.2% in February and 0.4% in March.

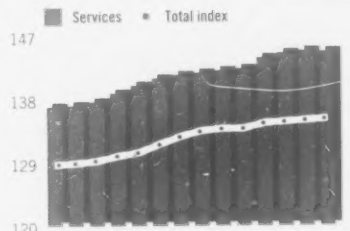
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	8.5%
Auto sales year to date vs 1990[1]	Ward's Automotive	-15.4%
Index of leading indicators Mar vs Feb	Dept of Commerce	0.5%
Trade balance 12 months ended Mar 1991	Dept of Commerce	-$91 bil
All-commodity producer price index Apr vs Mar[2]	Dept of Labor	0.0%
GNP 1st quarter vs. 4th—annualized growth	Dept of Commerce	-2.8%
NBER Experimental Recession Probability Index[3]	Natl Bureau of Economic Research	3.0%

[1] U.S.-based manufacturers, excludes imports, as of 5/10/91. [2] Wholesale goods. [3] March 1991.

Index components

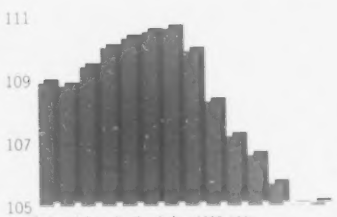
The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, Forbes monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

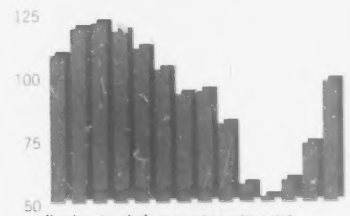


Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)

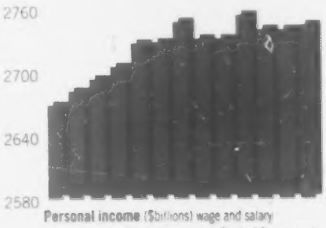
Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)



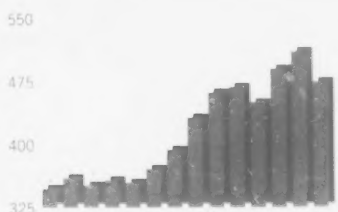
Industrial production index (1987=100) seasonally adjusted (Federal Reserve)



New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)



New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)

Retail sales ($billions) seasonally adjusted (Dept of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

M A M J J A S O N D J F M A M A M J J A S O N D J F M A M A M J J A S O N D J F M A

Prices of big-league sports teams are escalating. Time to get out?

Are the insiders getting itchy?

By Eric Schmuckler

Red McCombs' San Antonio Spurs take on Paramount Communications' New York Knicks **Prices for pro sports teams have risen so much that many owners are testing the waters.**

Up for grabs

Team/sport	Principal owner(s)	Standings last 3 years*	Est value ($mil)
Denver Nuggets/basketball	Comsat Video Enterprises, Peter Bynoe	7-4-3	$65-75
Detroit Tigers/baseball	Tom Monaghan	3-7-2	100
Houston Astros/baseball	John McMullen	4-3-5	80-85
Houston Rockets/basketball	Charlie Thomas	3-5-2	90
Indianapolis Pacers/basketball	Herbert and Melvin Simon	5-4-6	65-85
Kansas City Royals/baseball	Ewing Kauffman	6-2-3	80
NJ Nets/basketball	Alan Aufzien, 5 others	5-6-5	70-75
NY Islanders/hockey	John Pickett Jr	6-4-6	75-80
Pittsburgh Penguins/hockey	Edward J DeBartolo Corp	1-5-2	65-85
Sacramento Kings/basketball	Joe Benvenuti, Gregg Lukenbill	7-7-6	65-75
San Antonio Spurs/basketball	Red McCombs	1-1-5	75-90
Washington Bullets/basketball	Abe Pollin	4-4-4	60-65

*Teams' rankings in their division, last season first

The above are professional sports teams that industry insiders say are for sale. Apart from the Astros and the Islanders, the teams deny it, but in each case knowledgeable sports sources say a deal can be struck.

DO YOU ENJOY losing money? Paying multimillion-dollar salaries to ill-mannered prima donnas? Begging for handouts from hard-pressed local governments?

If so, you may have what it takes to own a major league sports franchise. And if you're on the prowl, your timing couldn't be better. At least a dozen sports teams may be on the block now *(see table)*, although the owners of only two of them—baseball's Houston Astros and hockey's New York Islanders—have officially hung out "For Sale" signs.

Owners have a variety of reasons to consider selling, liquidity not the least of them. Scuttlebutt in the National Hockey League has it that developer Edward DeBartolo is hurting on his loan to cash-strapped retailer Robert Campeau and wants to raise money by selling his Pittsburgh Penguins. Another theory is that DeBartolo is finally going to comply with National Football League rules prohibiting cross-ownership so he can hold on to his San Francisco 49ers. Rumored price for the Penguins: $65 million to $85 million, depending on what goes into the package.

Or take the National Basketball Association's Denver Nuggets. One of the team's owners, Bertram Lee, is apparently so low on money he was recently evicted from his apartment; his co-owners need to raise more capital. One of those co-owners, with about 10%, is Drexel Burnham Lambert, struggling to emerge from bankruptcy and hungry for cash.

Even as some owners are trying to get out of the game, additional merchandise is appearing on the market. Baseball's National League will soon award two new franchises for $95 million apiece. Not coincidentally, that's just about the price Houston Astros owner John McMullen is asking for his team.

The National Hockey League is granting new franchises to Ottawa and Tampa Bay for $50 million each—a big increase over the $30 million or so price of the previous two hockey franchises to change hands, Hartford and Minnesota. When John Pickett Jr. put his once great New York Islanders on the block in February, he said he was looking for more than the expansion

fee, with an asking price said to be up to $100 million.

In the National Basketball Association, too, prices are hopping. The NBA severely underpriced the four new franchises it granted in 1988 and 1989 for just $32.5 million apiece—the Portland Trail Blazers sold for a reported $75 million in 1988 and even the lowly Denver Nuggets fetched some $54 million in 1990.

Now Charlie Thomas, an automobile dealer who bought the Houston Rockets for $10 million in 1982, says he wouldn't turn down the right offer—which would be somewhere north of $100 million. Rumors are also swirling around Red McCombs' San Antonio Spurs, said to be for sale for about the same price. And Donald Carter, owner of the poorly performing Dallas Mavericks, recently said that if he can't turn the team around over the next season, the town deserves another owner.

Interestingly, no NFL teams appear to be for sale at the moment, perhaps because owners are flush from their new television deal. The NFL is also talking expansion, with franchise fees of perhaps $150 million apiece for two new teams.

How high can professional sports franchise prices go? Jack Veatch, who's building a sports brokerage business for Salomon Brothers, thinks that owners will have to consider relaxing current league restrictions on public, foreign and corporate ownership, and on how much debt a team can carry.

This issue is coming to a head in the NFL. In mid-May former New England Patriots owner Billy Sullivan filed an antitrust suit against the league, complaining it wouldn't let him take his team public. If Sullivan wins, it could force the National Football League to allow corporate and public ownership. That would open the gates to more money flowing into the league's franchises, further inflating their values.

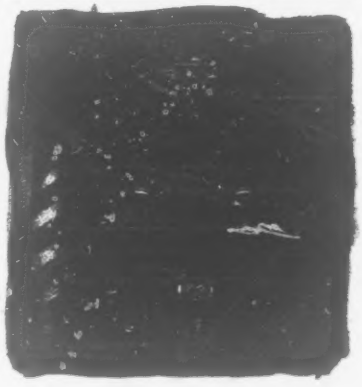
Still, the laws of supply and demand have not been repealed—even when it comes to professional sports teams. With all this supply coming to market and with overall business conditions none too healthy, there is going to be a top somewhere. It may be getting close. ■

From Texas, here's the latest on the legal profession: Plaintiff lawyers secretly agree beforehand to split big judgments with defense lawyers.

The widow Martinez

By William P. Barrett

EVER HEAR OF plaintiff and defense lawyers who secretly agree before a trial to share the proceeds in a big civil case? Well, why not? It's Texas, a state well known for the bizarre customs of its judicial system.



This case involves the widow of a Mexican shot dead in 1986 by robbers while working as a clerk at a Circle K convenience store in Brownsville, at Texas' southern tip. The widow, Laura Martinez, received workers' compensation death benefits but also sued Phoenix-based Circle K Corp. for "gross negligence," claiming the store should have been made safer for its employees.

The store's primary insurance carrier, Houston General Insurance Co., was on the hook for the first $100,000 of liability. Houston General hired a local lawyer to defend the case. The litigation dragged on for several years, partly because of a complicated dispute between Circle K and Guaranty National Cos., which was responsible for the next $5 million of any liability. Despite warnings from Circle K, Guaranty National declined to assume responsibility. The insurer said it was unsure its policy, issued to the store's previous owner, covered such claims against Circle K—even though the carrier had collected the premiums.

Martinez and her lawyer, M. Mario Garcia, worried that a looming Circle K bankruptcy would make any judgment uncollectible. Circle K, meanwhile, fretted about another one of those outrageously huge Texas verdicts—grieving widows with little insurance coverage, especially along the impoverished Rio Grande, make great witnesses.

So Circle K's regular Texas law firm, Houston's Hirsch, Glover, Robinson & Sheiness, started wheeling and dealing. First, primary insurer Houston General paid its $100,000 to Martinez and got out of the case. Then Martinez agreed to restrict her lawsuit to whatever she could get from Guaranty National.

Circle K, still feuding with Guaranty National, agreed to give Martinez whatever it got from suing Guaranty National for not covering her claim. Martinez in turn promised to give Circle K a cut of any recovery from Guaranty National. In a side agreement Hirsch, Glover agreed to take its fee from this cut. The whole thing got cozier and cozier.

Regardless of outcome, Circle K would pay nothing. In essence, Hirsch, Glover—normally a bill-by-the-hour defense firm—was now handling the matter on a contingency-fee basis. The firm, which had billed Circle K only about $100,000 on the

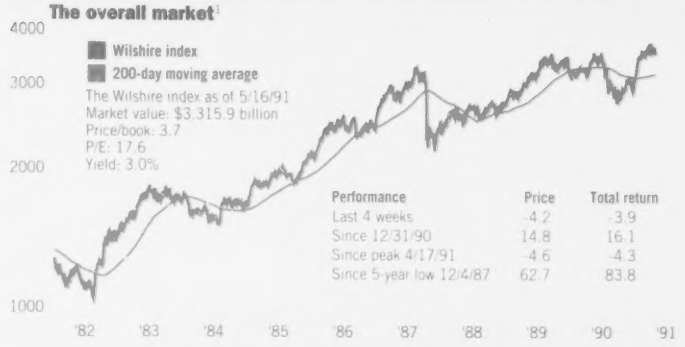
BY ERIC S. HARDY

After the Dow industrials briefly crossed over the 3000 mark, Wall Street caught a bad case of the jitters. Alison P. Bisno, director of research of Little Rock, Ark.-based investment banker Stephens Inc., points out that in its current state, the market is highly susceptible to negative earnings surprises.

A classic case is Compaq Computer. Lower-priced manufacturers of personal computers like Dell Computer, AST Research and Northgate Computer Systems are gaining ground at Compaq's expense. Compaq recently announced that it expected second-quarter revenues would decline by 15%, while profits would be off 80%. Wall Street stampeded to the exit. This former institutional favorite lost 13¼ points and $1.2 billion in market capitalization for the two weeks ending May 16.

Even after losing 4% of its value in the four weeks ending May 16, the overall market is far from cheap. The 6,000 stocks in the Wilshire index are now selling at 17.6 times latest 12 month earnings and 3.7 times book value. In contrast, prior to the crash in October 1987, the price-to-book ratio on the Wilshire index was 2.6. And the dividend yield on the Wilshire index is only 3% today. In October 1987 it was 3.3%, and in mid-1982, just before the 1980s bull market got under way, the yield was 5.9%.

The overall market[1]



The best performing stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
International Game Tech	48⅝	26%	30	1,987	2.5
Harley-Davidson	35½	19	21	1,368	1.4
Nordstrom	43⅛	15	31	6,900	1.5
AmeriTrust	16⅝	12	NM	2,224	1.7
Medical Care International	52¼	12	36	2,648	0.8

The worst performing stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Compaq Computer	35¼	-19%	7	10,937	1.0
Intelligent Electronics	21⅛	-12	9	7,214	1.9
SynOptics Communications	30¼	-3	19	4,375	1.0
Conner Peripherals	19¼	-12	7	9,489	1.1
Blockbuster Entertainment	9⅛	-4	21	22,374	1.6

Closeup on the market

Index or investment	Price or rate	2-week change
Wilshire index 6,000 stocks, capitalization weighted	3,559.0	-2.1%
Wilshire index 6,000 stocks, equal weighted	24.2	-0.3
Dow Jones industrials 30 stocks, divisor adjusted price average	2,894.0	-1.5
S&P 500 Capitalization weighted cross section, major stocks	372.2	-2.2
NYSE Capitalization weighted, all listed common stocks	204.0	-2.0
Amex Capitalization weighted total return, stocks, warrants	358.3	1.5
Nasdaq Capitalization weighted, all issues except warrants	481.8	-1.9
Amex international market index Capitalization weighted, 50 largest ADRs	316.5	-0.9

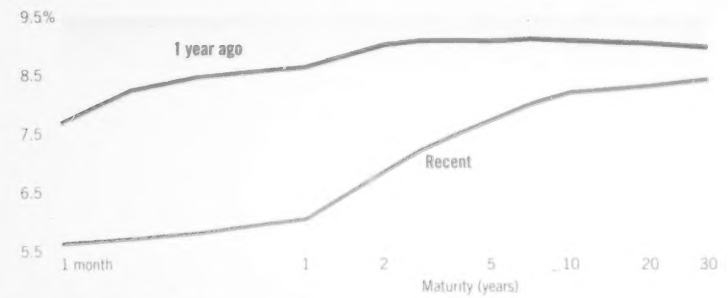
Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	845.90	-0.8%
Institutional[5] Approximately 200 stocks with high institutional ownership	119.93	-3.4
Individual[5] Approximately 200 stocks with low institutional ownership	102.99	-0.6
Russell 2000 index 2,000 small market value stocks, capitalization weighted	170.72	-1.7
Gold[6] (composite quote of 6 major dealers)	$356.10	0.2
Yen[6] (per $U.S.)	137.55	-0.4
Commodity index[6] (CRB futures, 1967=100)	215.11	-0.5
Oil[6] (W. Texas intermediate)	$20.90	-1.2
T bills[7] (90 days)	5.39%	-4 basis points[8]
Broker loan rate[9]	7.50%	Unchanged

Note: All data for periods ending 5/16/91. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since the index was created. Stocks listed above have market capitalization of $500 million or more. [1] Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2] Average daily volume over recent 2-week period. [3] Average daily volume over the last 2 weeks, divided by the average daily volume during the preceding 3 months. [4] Morgan Stanley Capital International Perspective. [5] For period ending 5/17/91. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6] Knight Ridder Financial Information. [7] A basis point is equal to one-hundredth of a percentage point. NM: Not meaningful.

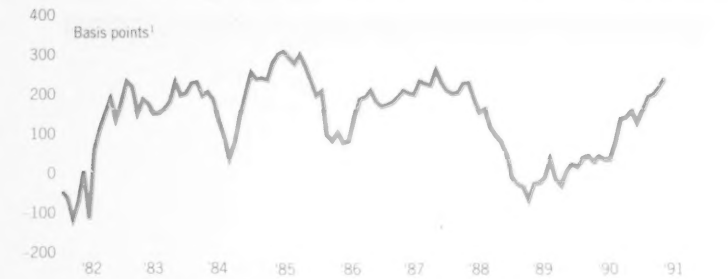
FIXED INCOME REVIEW

BY ERIC S. HARDY

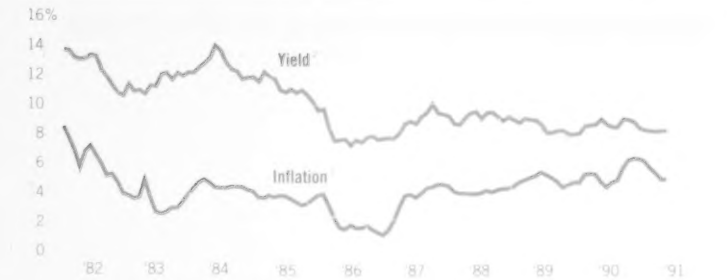
Yield curve



30-year rate minus 1-year rate



Yield vs. inflation



Spread over Treasurys

Security	Basis points[1]
AA corporates	69
AAA industrials	56
Ginnie Maes	87
Junk corporates[4]	772
Municipals	-120

Total returns

Security	1 year[5]	3 years[6]
AAA corporates	14.8%	10.7%
Ginnie Maes[7]	16.1	11.6
Junk corporates[4]	18.2	23.8
Municipals	11.5	9.2
Treasury bonds	14.7	10.2

The yield curve *(see top graph, left)* should flatten significantly later this year as short-term rates hold steady and longer rates decline. So says Skip Shaw, head of the government bond department at Bear, Stearns. He predicts that the yield on 30-year Treasurys will fall from 8.35% now to between 7.50% and 7.75% later this year. For the next 18 months Shaw expects low inflation but little or no reduction in 3- and 6-month Treasury rates: "Short-term rates respond favorably to Fed easing, but that cycle is about over," he says.

Yields on short-term instruments such as bankers' acceptances, 3- and 6-month CDs, commercial paper and repurchase agreements have recently been declining, but it is now possible to increase credit quality with little or no yield sacrifice. How? By purchasing money market funds that invest exclusively in direct U.S. government obligations. Besides being free of credit risk, these funds are generally exempt from state and local income taxes. One caveat: Fund names can be misleading. The SBSF Money Market Fund consists of 100% U.S. Treasurys, but the Prime Value U.S. Government Fund has some riskier (and not tax-advantaged) repurchase agreements in its portfolio.

Over the 12 months through April the best-performing fixed-income investments were junk bonds. First Boston's index of these bonds had a total return of 18.2% for the period. Moreover, junk bonds have outperformed other debt instruments over the past three years despite the junk crash of 1989 *(see table)*. But note that long Treasury bonds returned a more-than-respectable 14.7% for the 12 months through April. About half this gain came from price appreciation from the decline in rates.

Investors are more enamored than ever of one-state municipal bond funds, which are exempt from that one state's income taxes as well as from federal taxes. These portfolios grew by a net $2.9 billion during the first quarter of 1991, according to the Washington, D.C.-based Investment Company Institute.

Note: Except where footnoted, all information provided by Berkeley, Calif.-based Barra, a financial consulting firm. [1] A basis point is equal to one hundredth of a percentage point. [2] Yield on ten-year Treasurys. [3] The trailing 12-month increase in the Consumer Price Index, through 4/30/91. [4] Source: First Boston. [5] Source: Shearson Lehman Brothers. [6] Data through 4/30/91. [7] Three-year total return, annualized.